

AS LHV Varahaldus

Annual Report 2010

(Translation of the Estonian original)



Annual Report	01.01.2010 - 31.12.2010
Business Name	AS LHV Varahaldus
Commercial Registry No.	10572453
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Main activities	Fund management, EMTAK 66301 (Estonian version of NACE)
Management Board	Mihkel Oja Kerli Lõhmus
Supervisory Board	Andres Viisemann Rain Lõhmus Erki Kilu
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

AS LHV Varahaldus is a fund management company for pension and investment funds.

In 2010 the main business activity of the company was to provide fund management services to five mandatory pension funds, one supplementary pension fund and three equity funds (UCITSs).

2nd pillar pension funds

Out of pension funds with progressive investment strategies (up to 50% of the assets are invested in equities) offered in Estonia, LHV Pension Fund L and LHV Pension Fund XL managed by the Company were the first and second best funds in terms of their rates of return.

Comparison of progressive pension *	NAV 31.12.2009	NAV 31.12.2010	Change in NAV
LHV Pension Fund L	17,6633	20,5095	16,11%
LHV Pension Fund XL	15,1800	17,5993	15,94%
ERGO Pension Fund 2P2	15,2017	17,3294	14,00%
Nordea Pension Fund A	12,4288	13,7779	10,85%
Swedbank Pension Fund K3	13,5047	14,9090	10,40%
Sampo Pension 50	15,4607	17,0465	10,26%
SEB Progressiivne	13,4345	14,6800	9,27%

Among pension funds with balanced investment strategies (up to 25% of the assets are invested in equities, LHV Pension Fund M under the Company's management ranked first in terms of their rates of return.

Comparison of balanced pension *	NAV 31.12.2009	NAV 31.12.2010	Change in NAV
LHV Pension Fund M	14,4498	15,9849	10,62%
Nordea Pension Fund B	12,0350	12,9051	7,23%
Sampo Pension 25	13,4769	14,4183	6,99%
Swedbank Pension Fund K2	12,0694	12,8214	6,23%
SEB Optimaalne	11,8413	12,5376	5,88%

Among the funds investing only in bonds, i.e. conservative funds, LHV Pension Fund X and LHV Pension Fund XS under the Company's management ranked first and second in terms of their rates of return.

Comparison of conservative pension	NAV 31.12.2009	NAV 31.12.2010	Change in NAV
LHV Pension Fund XS	14,4476	15,4575	6,99%
LHV Pension Fund S	15,7555	16,8190	6,75%
SEB Konservatiivne	12,6621	13,3481	5,42%
ERGO Pension Fund 2P1	12,9396	13,4620	4,04%
Sampo Pension Intress	12,3819	12,8052	3,42%
Nordea Pension Fund C	11,5039	11,8643	3,13%
Swedbank Pension Fund K1	11,3239	11,5926	2,37%

When at the beginning of 2010 the total number of active clients in 2nd pillar pension funds was 33 thousand, then this figure grew up to 53 thousand clients by the beginning of 2011.

3rd pillar

The supplementary funded pension fund plans offered in Estonia differ from each other in respect of the percentage invested in equities, therefore, it is more difficult to compare their rates of return. On average, LHV Supplementary Pension Fund invests 75% in equities. In the financial year, the fund was the sixth in respect of its rate of return.

Comparison of supplementary pension funds *	NAV 31.12.2009	NAV 31.12.2010	Change in NAV
ERGO Pension Fund 3P3 (100)	12,5665	15,2070	21,01%
Sampo Pension 100 Pluss (100)	17,6853	21,2420	20,11%
SEB Aktiivne PF (100)	12,1769	14,5467	19,46%
Nordea PF Aktsiad 100 (100)	14,0569	16,7441	19,12%
ERGO Pension Fund 3P2 (75)	12,0732	14,2877	18,34%
LHV Täiendav Pension Fund (75)	16,5779	19,4080	17,07%
Swedbank Pension Fund V3 (100)	13,6904	15,9611	16,59%
ERGO Pension Fund 3P1 (50)	11,6266	13,2476	13,94%
Swedbank Pension Fund V2 (60)	11,8963	13,1513	10,55%
SEB Tasakaalukas PF (35)	15,9028	17,1879	8,08%
Swedbank Pension Fund V1 (30)	15,9027	16,7754	5,49%
Sampo Pension Intress Pluss (30)	10,7374	11,1092	3,46%

* All comparative net asset values in the tables above are disclosed based on the information of www.pensionikeskus.ee

The number in parentheses after the name of the fund shows the maximum allowed percentage of equities in the fund in accordance with the funds' prevailing terms and conditions.

Equity Funds

The Company manages three UCITS funds that invest in equities. All investment funds are publicly offered in Estonia, Latvia and Lithuania and LHV Persian Gulf Fund is also publicly offered in Sweden, Finland and Norway.

LHV UCITS funds	NAV 31.12.2009	NAV 31.12.2010	Change in NAV
LHV World Equities Fund	7,8335	9,0822	15,94%
LHV Persian Gulf Fund	6,2300	7,4893	20,21%
LHV Emerging Europe Alpha Fund	3,8018	4,5130	18,71%

Volume of assets under management

At the end of 2009, the total amount of assets managed by LHV Varahaldus was 834 million kroons and it grew up to 1 331 million kroons by the end of 2010 and at the beginning of 2011 up to 1 781 million kroons (EUR 113,8 million).

In 2011, the objective of the Company is to increase its market share in the mandatory pension market and increase the volume of assets under management in its equity funds through positive returns as well as attracting new investors.

Due to higher marketing and sales expenses related to the enhancement of the market share, in order to guarantee the preservation of the minimum level of own funds as required by law, LHV Varahaldus strengthened its capital as follows:

- In July 2010, issued subordinated bonds in the amount of EEK 6 258 640 (EUR 400 thousand);
- In November 2010, increased its share capital by EEK 10 539 020;
- In 2011, issued subordinated loans in the amount of EUR 1 000 000 and redeemed previously issued bonds in the amount of EUR 800 000;
- In March 2011, increased its share capital by EUR 150 000.

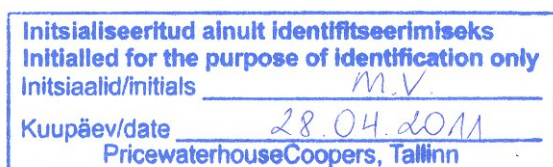
FINANCIAL STATEMENTS

Balance Sheet

(in Estonian kroons)

Assets	Note	31.12.2010	31.12.2009
Current Assets			
Cash and bank	2	685 494	1 064 284
Short term financial investments	3	13 232 934	21 270 348
Other receivables	14	2 102 348	1 306 165
Accrued income		305 526	285 000
Other prepaid expenses		1 535 376	909 754
Total current assets		17 861 678	24 835 551
Non-current assets			
Units of managed pension funds	4	30 330 341	20 673 278
Units of managed investment funds	4	9 897 022	8 385 936
Tangible assets	5	306 312	386 319
Total non-current assets		40 533 675	29 445 533
Total assets		58 395 353	54 281 084
Liabilities and equity			
Current liabilities			
Supplier payables	6,14	2 975 377	2 350 425
Accrued expenses and other liabilities	7	1 496 191	849 165
Provisions	8	0	600 000
Current portion of long-term borrowings	5,9	551 618	642 312
Total current liabilities		5 023 186	4 441 902
Non-current liabilities			
Finance lease liabilities	5	125 330	231 376
Subordinated liabilities	9	15 646 600	9 387 960
Total non-current liabilities		15 771 930	9 619 336
Equity			
Share capital		73 539 020	63 000 000
Share premium		4 742 559	4 100 000
Accumulated losses		-22 780 154	-22 552 350
Net loss for financial year		-17 901 188	-4 327 804
Total equity	10	37 600 237	40 219 846
Total liabilities and equity		58 395 353	54 281 084

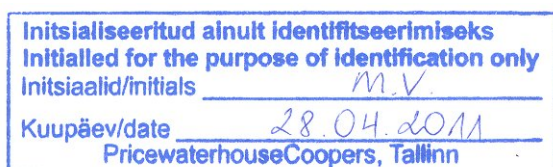
The Notes to the financial statements presented on pages 11-20 are an integral part of the Annual Report.



Income statement*(in Estonian kroons)*

	Note	2010	2009
Fee income	11,14	22 416 013	14 684 030
Other operating income		0	147 002
Total operating income		22 416 013	14 831 032
Operating expenses	12,14	-37 664 435	-20 187 616
Personnel expenses	12		
<i>Wages and salaries</i>		-4 660 838	-3 628 392
<i>Social security costs</i>		-1 506 781	-1 211 073
<i>Unemployment insurance expense</i>		-47 180	-25 181
Total personnel expenses		-6 214 799	-4 864 646
Depreciation and amortization	5	-156 902	-165 408
Impairment of goodwill	5	0	-1 183 699
Provision expense	8	0	-600 000
Other operating expenses		-47 145	-21 033
Total operating expenses		-44 083 281	-27 022 402
Operating loss		-21 667 268	-12 191 370
Financial income and expense			
Profit from revaluation of short-term securities	3	1 377 860	3 495 482
Profit from revaluation of units of managed funds	4	4 217 383	5 806 903
Interest income	2,14	6 153	528 540
Interest expense	9,14	-1 802 266	-1 957 777
Foreign exchange losses		-33 050	-9 582
Total financial income and expense		3 766 080	7 863 566
Net loss for the financial year		-17 901 188	-4 327 804

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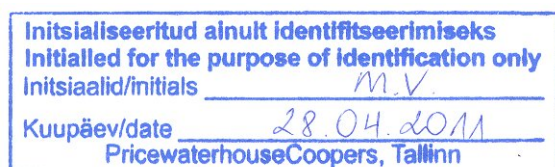


Cash flow statement*(in Estonian kroons)*

	Note	2010	2009
Cash flow from operating activities			
Operating loss		-21 667 268	-12 191 370
Adjustments:			
Depreciation and amortization	5	156 902	165 408
Impairment of goodwill	5	0	1 183 699
Change in receivables and prepayments		-1 442 331	-521 101
Change in supplier payables		671 978	2 370 875
Interests paid		-1 898 288	-1 729 304
Total change in working capital		-2 511 739	1 469 577
Total cash used in operating activities		-24 179 007	-10 721 793
Cash flow from investing activities			
Purchase of non-current assets	5	-76 895	0
Loans granted	14	0	-6 500 000
Repayments of loans granted		0	14 200 000
Purchase of short-term financial investments	3	-4 489 196	-16 699 038
Sale of short-term financial investments	3	12 981 386	11 205 359
Purchase of long-term financial investments	4	-6 950 765	-1 738 580
Dividends and interest received		929 236	2 581 924
Total cash flow from investing activities		2 393 766	3 049 665
Cash flow from financing activities			
Finance lease payments	13	-100 718	-88 910
Issue of share capital	10	15 281 579	0
Short-term loans received	14	300 000	0
Repayment of short-term loans received	14	-300 000	0
Issue of subordinated bonds	9	6 258 640	0
Redemption of subordinated bonds	9	0	-3 129 320
Total cash used in / cash flow from financing activities		21 439 501	-3 218 230
Total cash flow		-345 740	-10 890 358
Cash and cash equivalents at beginning of the period	2	1 064 284	11 964 224
Change in cash and cash equivalents		-345 740	-10 890 358
Effect of exchange rate differences ¹		-33 050	-9 582
Cash and cash equivalents at the end of the period	2	685 494	1 064 284

The Notes to the financial statements presented on pages 11-20 are an integral part of the Annual Report.

¹ In the account the effect of exchange rate differences of bank accounts is recorded

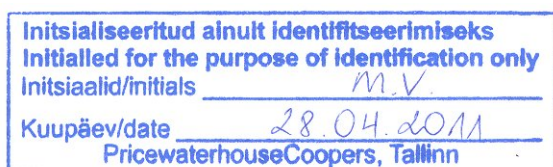


Statement of changes in equity*(in Estonian kroons)*

	Share capital	Share premium	Accumulated loss	Total equity
Balance at 01.01.2009	63 000 000	4 100 000	-22 552 350	44 547 650
Net loss for financial year	0	0	-4 327 804	-4 327 804
Balance at 31.12.2009	63 000 000	4 100 000	-26 880 154	40 219 846
Share premium used to cover the loss for previous periods	0	-4 100 000	4 100 000	0
Issue of share capital	10 539 020	4 742 559	0	15 281 579
Net loss for financial year	0	0	-17 901 188	-17 901 188
Balance at 31.12.2010	73 539 020	4 742 559	-40 681 342	37 600 237

More detailed information on share capital is provided in Note 10.

The Notes to the financial statements presented on pages 11-20 are an integral part of the Annual Report.



Notes to the Financial Statements

Note 1 Accounting policies and measurement bases adopted in the preparation of the financial statements

1.1 General principles

The financial statements of AS LHV Varahaldus have been prepared in accordance with the accounting principles generally accepted in Estonia, whose main requirements are prescribed by the Accounting Act of the Republic of Estonia and that are supplemented by the guidelines issued by the Accounting Standards Board. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Estonian kroons.

1.2 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits held at call with banks, as well as term deposits with original maturities of three months or less.

1.3 Shares and other securities

Securities held for the purpose of trading are classified as short-term shares and other securities. Other long-term shares and securities include securities not expected to be sold within the next 12 months. Purchases of shares and securities are recognised at the settlement date.

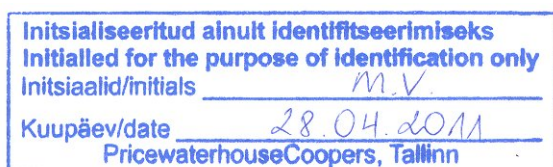
Short and long-term investments in shares and other equity instruments are subsequently carried at fair value, if their fair value can be measured reliably. Shares and other equity instruments which fair value cannot be measured reliably are recognised at cost (that is acquisition cost less any impairment, when the carrying amount of the investment is not recoverable). Fund units are measured at their redemption price. The fair value of listed securities (for which an active market exists) is their current bid price. For determining the fair value of investments that are not actively traded in the market, alternative methods such as the prices used in recent transactions (if they occur under active market conditions), the discounted cash flow model or the option pricing model are used.

The changes in the fair value of shares and other securities held for trading as well as those in the fair value of long-term financial investments are taken to profit or loss of the reporting period. To account for the purchases and sales of financial assets at fair value through profit or loss, the change in the value of assets to be acquired in the period between the transaction and balance sheet date is taken to profit or loss of the reporting period. All financial investments in this annual report are accounted at fair value.

1.4 Trade receivables

All receivables (accrued income, loans granted and other short and long-term receivables), except for receivables acquired for the purpose of selling, are carried at amortised cost. The amortised cost of the short-term receivables normally equals their cost value (less any impairment); therefore short-term receivables are stated in the balance sheet in their redemption value. Long-term receivables are initially recognised at the fair value of the consideration receivable and subsequently interest income is calculated on the receivable using the effective interest rate method. Receivables acquired for selling purposes are measured at fair value.

Impairment of trade receivables is accounted in case there is objective evidence that the estimated collections do not correspond to initial terms of contract. Such situations, that indicate possible downturn of value of trade receivables, are the buyers' bankruptcy or significant financial difficulties and inability to fulfil their obligations. Impairment of trade receivables (i.e. the need for allowance) is assessed individually of each



specific debtor, on basis of estimated present value of future cash flows. The value of impairment loss of trade receivables is the difference between the carrying value of these receivables and present value of future cash flows, using effective interest rate method. The carrying value of trade receivables is reduced by the amount of impairment loss of receivables and loss from impairment is charged to the income statement as operating expenses. If the receivable is assessed to be irrecoverable, it is removed from the balance sheet. The collection of previously recognised impairment loss is reversed by adjusting the allowance account.

1.5 Tangible assets

Tangible assets are assets used in the operations of the Company with a useful life of over one year. An item of tangible assets is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. An item of tangible assets is carried in the balance sheet at its cost less any accumulated depreciation and any impairment losses. Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount.

Items of tangible assets leased under the finance lease terms are accounted for similarly to acquired non-current assets.

Subsequent expenditures on tangible assets are accounted as non-current assets when it is probable that the company will gain future economic benefit from these assets and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at their occurrence.

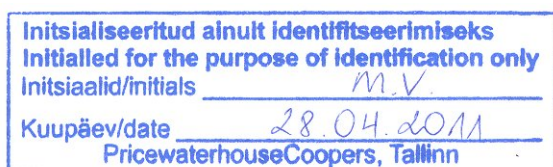
Depreciation is calculated on the straight-line basis. The annual depreciation rate for software is 33% and 20% for the equipment and machinery leased under the finance lease terms. Depreciation is commenced at the time when the asset can be used for the purpose intended by management and is terminated when the residual value exceeds the carrying amount, until the final removal of the asset from use or upon reclassification into "non-current assets held for sale". At each balance sheet date, the validity of depreciation rates, the depreciation method and the residual value is assessed. The accounting of an item of tangible assets is terminated when asset is sold or when no more economic benefits can be gained from use or sale of the asset. The gain or loss from disposal of non-current asset is recognised in income statement as other operating revenues or other operating expenses.

1.6 Intangible assets

An intangible asset is initially recognised at cost, comprising of its purchase price and any directly attributable expenditure. After initial recognition, an intangible asset is carried in the balance sheet at its cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with indefinite useful lives (goodwill which arose in a business combination) are not subject to amortisation, but an impairment test is carried out at each balance sheet date to review their value. The impairment test on intangible assets that are amortised is carried out when there are indications that the value of the assets may have impaired. If their recoverable amount turns out to be lower than their carrying amount, they are written down to their recoverable amount. The recoverable amount of the asset is the higher of the fair value less costs to sell or its value in use. For the purpose of assessing impairment, the recoverable amount is assessed either for each individual asset or the smallest group of assets for which it is possible to distinguish cash flow. The impairment loss of assets is reported as expenses in the accounting period.

The depreciation rate for intangible assets with definite useful lives is 33%.



1.7 Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the share of the net assets acquired, reflecting the part of acquisition cost which was paid for such assets of the acquired company which cannot be separated and accounted for separately. At the transaction date, goodwill is recognised in the balance sheet at its acquisition cost as an intangible asset. Goodwill is subsequently carried at its cost less any impairment losses. Goodwill is not amortised. Goodwill is not subject to amortisation, instead an impairment test is carried out at each balance sheet date (or more frequently when an event or change in circumstances indicates that the fair value of goodwill may have become impaired), an impairment test is performed and if necessary, goodwill is written down to its recoverable value if it is lower than its carrying amount. Goodwill impairment losses are not reversed.

1.8 Finance and operating leases

Leases of Tangible assets which transfer substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

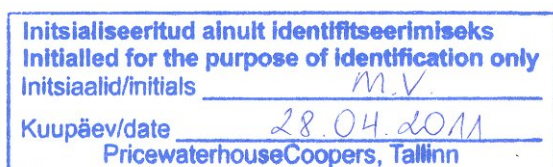
Finance leases are recognised in the balance sheet as assets and liabilities at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charges (interest expense) and reduction of the outstanding liability. The finance cost (interest expense) is charged to the income statement over the lease period so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The assets acquired under finance lease are depreciated similarly to purchased assets over the shorter of the useful life of the asset and the lease term. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

Leases of Tangible assets where all significant risks and rewards of ownership are not transferred to the lessee are classified as operating lease. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

1.9 Financial liabilities

All financial liabilities (supplier payables, loans received, accrued expenses, issued bonds and other short-term and long-term borrowings) are initially recorded at the acquisition cost that includes all transaction costs related to acquisition. After initial recognition, financial liabilities are measured at amortised cost (except for financial liabilities acquired for the purpose of selling and derivatives with negative fair value that are carried at their fair value).

The amortised cost of non-current financial liabilities normally equals their nominal value, therefore non-current financial liabilities are stated in the balance sheet at their redemption value. To calculate the amortised cost of long-term financial liabilities, they are initially recorded at fair value of the proceeds received (less transaction costs), taking into consideration the interest expense in following periods using effective interest rate method. Financial liabilities are classified as short-term, when their payment date is within 12 months after the balance sheet date or the Company does not have an unconditional right to postpone the settlement of the liability for later than 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but that are refinanced after the balance sheet date but before the financial statements are authorised for issue as non-current, are recognised as short-term. Also, borrowings are classified as short-term that the lender could recall at the balance sheet date due to the breach of conditions set forth in the agreement.



1.10 Provisions and contingent liabilities

Commitments arising from an obligating event before the balance sheet date, which realisation time or amount are not certain, are recognised as provisions in the balance sheet. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows. A provision is recognised in the balance sheet in the amount which according to the management is necessary as at the balance sheet date for the meeting of the obligation arising from the provision or transfer to the third party. Other possible or existing contingent obligations, for which it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

1.11 Foreign currency transactions and assets and liabilities denominated in a foreign currency

All currencies, except for the Estonian kroon (i.e. the functional currency of the Company) are considered as foreign currencies. Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia prevailing at the dates of the transactions. Monetary financial assets and liabilities and non-monetary financial assets and liabilities denominated in foreign currencies, which are measured at fair value, are translated into Estonian kroons at the balance sheet date based on the foreign currency exchange rates of the Bank of Estonia. Profits and losses from foreign currency transactions are recognised in the income statement as income or expenses for that period.

Non-monetary assets and liabilities denominated in foreign currency (prepayments, non-current assets) are not revaluated on balance sheet date, but accounted continuously at the Estonian Central Bank rate as of transaction date.

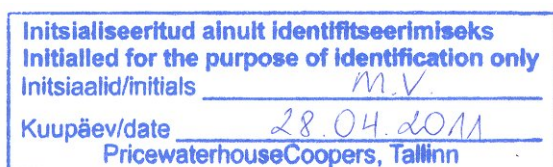
1.12 Revenues and expenses

Revenues and expenses have been recognised under the accrual basis of accounting. Revenue is recognised when the sold service has been provided and the risks and benefits have been transferred to the buyer and AS LHV Varahaldus has the right for the receivable. The management fees related to activities of investment funds are accounted during the period of providing services. Revenue arising from interest and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Interest income is recognised taking into account the effective interest rate. Dividends are recognised when the right to receive payment is established.

1.13 Corporate income tax

According to income tax legislation currently in force the profit for financial year of a company is not a subject for taxation. Income tax is paid for dividends, fringe benefits, gifts, sponsorship, guest admission expenses, expenses not related to business and transfer pricing corrections. From 1.01.2008 the distribution of retained earnings is subject to a dividend tax of 21/79 of net dividend paid. In certain circumstances the dividends received can be distributed forward without additional income tax expense. The corporate income tax related to dividend payments is accounted as liability and tax expense in income statement the same period the dividend is announced, no matter for which period the dividend is announced or when the dividend payment is actually carried out. The liability for income tax payment is on the 10 day of the next month of dividend payment.

Arising from individuality of taxation there are no differences related to tax calculations and book values of assets and derived from that also not deferred tax receivables or liabilities. Contingent tax liabilities, that would arise from dividend payments from retained earnings, are not accounted in balance sheet. The maximum tax liability, that would accompany with profit distribution as dividends, is presented in notes for the financial reports.



1.14 Statutory reserve capital

Statutory reserve capital is formed to comply with the requirements of the Commercial Code. Statutory reserve capital is formed from annual net profit allocations. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Statutory reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from statutory reserve capital.

Note 2 Cash and cash equivalents

	31.12.2010	31.12.2009
Bank accounts, except related parties	1 52 424	986 024
Account at LHV Pank (Note 14)	533 070	78 260
Total cash and cash equivalents	685 494	1 064 284

In 2010, the interests earned on bank accounts totals 6 153 kroons (2009: 144 045 kroons).

Note 3 Short-term financial investments

	31.12.2010	31.12.2009
Bonds	13 232 934	21 270 348
Total at fair value through profit or loss	13 232 934	21 270 348

In 2010, the total bond position was accounted for on the basis of market prices quoted in an active market. In 2009, bonds accounted for at the market price were in the amount of EEK 14 389 020 and using the discounted cash flow model, in the amount of EEK 6 881 328. The discounted cash flow method is used for the bonds whose market value based on market transactions are difficult to determine. The evaluation method expresses the current situation and return expectation at the date of evaluation and it may not accurately reflect market conditions before and after the date of evaluation.

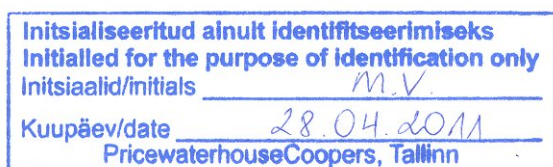
Note 4 Non-current financial investments

	31.12.2010	31.12.2009
Units of pension funds	30 330 341	20 673 278
Units of investment funds	9 897 022	8 385 936
Total at fair value through profit or loss	40 227 363	29 059 214

In 2010, the units of pensions funds were acquired in the total amount of 6 950 765 (2009: 1 738 580) kroons. The acquisition cost of the units of pension funds recognised at fair value in the balance sheet is 20 689 346 kroons. The units of investment funds were purchased at their nominal value and the total acquisition cost of these fund units is 14 081 940 kroons.

Note 5 Tangible and intangible assets

In 2008, the Company acquired a passenger car under the finance lease agreement for 532 826 kroons. The finance lease liability is recognised in the balance sheet as a current portion of non-current liabilities in the amount of 99 281 kroons (31.12.2009: 93 953 kroons) and as a non-current portion of non-current liabilities (up to 5 years) in the amount of 125 330 kroons (31.12.2009: 231 376 kroons), see also Note 13.



In 2009, an impairment test for the recoverable amount of goodwill was performed for the positive goodwill which arose on the acquisition and merger of the former management company AS Seesam Varahaldus that had previously been included within intangible assets. The recoverable amount of goodwill determined in the test was lower than its carrying amount due to the small share of revenue of three funds under management that were used in the test to the Company's total revenue. Therefore, the Management Board wrote down goodwill in full.

In the reporting period, intangible assets with the carrying amount of 0 were taken off the balance sheet.

	Tangible assets		Intangible assets	
	Computer technology	Machinery and equipment	Licences	Goodwill
Carrying value at 31.12.2008	97 050	449 054	5 623	1 183 699
Changes occurred in 2009				
Depreciation/amortization	-53 220	-106 565	-5 623	0
Impairment of goodwill	0	0	0	-1 183 699
Balance at 31.12.2009				
Acquisition cost	191 937	532 826	21 331	0
Accumulated depreciation	-148 107	-190 337	-21 331	0
Carrying value	43 830	342 489	0	0
Changes occurred in 2010				
Purchase of non-current assets	76 895	0	0	0
Depreciation/amortization	-50 337	-106 565	0	0
Balance at 31.12.2010				
Acquisition cost	268 832	532 826	0	0
Accumulated depreciation	-198 444	-296 902	0	0
Carrying value	70 388	235 924	0	0

Note 6 Accounts payable

	31.12.2010	31.12.2009
Accounts payable (except related parties)	2 880 522	2 153 419
Liabilities to related parties (note 14)	94 855	197 006
Total accounts payable	2 975 377	2 350 425

Note 7 Accrued expenses and other liabilities

	31.12.2010	31.12.2009
Payables to employees	904 020	557 383
Tax liabilities	592 171	328 782
incl. social security tax	328 053	191 454
incl. personal income tax withheld	195 103	108 110
incl. unemployment insurance premium	16 810	19 989
incl. contributions to mandatory pension	3 628	5 514
incl. corporate income tax	8 708	1 720
incl. value added tax	39 869	1 995
Total	1 496 191	886 165

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 PricewaterhouseCoopers, Tallinn

Note 8 Provisions

As 31.12.2009, a provision has been set up in the balance sheet for potential sales expenses. In the 1st half of 2010, the sales expenses were paid off, the cost of the provision was reduced and sales expenses were included within marketing expenses in the income statement.

Note 9 Subordinated liabilities

AS LHV Varahaldus has issued subordinated bonds in order to comply with the standards established for own funds of a fund management company by law. AS LHV Group purchased the bonds and they will mature in 7 years. The interest rate on bonds issued in 2008 is higher because the bonds were issued during the financial crisis in order to cover financial losses. The goal of the bonds issued in 2010 is to cover the losses arising from the increase in the market share achieved through active sales activities. The underlying currency of subordinated loans is the euro.

Subordinated bonds	Interest rate	Amount
Issue in 2008	16%	12 517 280
Redemption in 2009	16%	-3 129 320
Balance at 31.12 2009		9 387 960
Issue in 2010	10%	6 258 640
Balance at 31.12 2010		15 646 600

As at 31.12.2010, the amount due of subordinated loans with maturities of 1 to 5 years was EEK 9 387 960 (31.12.2009: 0) and that of loans with maturities of more than 5 years was EEK 6 258 640 (31.12.2009: EEK 9 387 960).

Interest expenses on subordinated loans in the amount of EEK 1 784 137 are included within interest expenses in the income statement (2009: EEK 1 936 653). In the balance sheet, the current portion of non-current liabilities includes an interest payable in the amount of EEK 452 337 (31.12.2009: EEK 548 359).

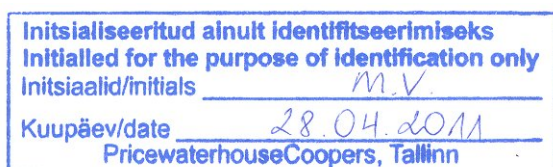
Note 10 Own funds

At the beginning of 2010, the share premium of earlier contributions to share capital was used to cover accumulated losses in the amount of EEK 4 100 000.

In November 2010, the share capital was increased and the amount of new share capital is EEK 73 539 020. A total of 1 053 902 new shares with the nominal value of EEK 10 were issued. The issue price was EEK 14,5 per share. The increase of share capital was paid in cash and in the total amount of EEK 15 281 579.

	31.12.2010	31.12.2009
Share capital (in thousands of kroons)	73 539	63 000
Issued shares (pcs)	7 353 902	6 300 000
Nominal value of shares (in kroons)	10	10

After the increase of share capital, the share capital was converted into euros and the new share capital is EUR 4.7 million. During the conversion of share capital, the nominal value of shares was changed so that shareholders received 0.639 shares with the nominal value of EUR 1 for each former share with the nominal value of EEK 10.



The Company's own funds consist of:	31.12.2010	31.12.2009
Tier 1 own funds	37 600 237	40 219 846
Share capital, incl. share premium	78 281 579	67 100 000
Accumulated losses	-22 780 154	-22 552 350
Net loss for the financial year	-17 901 188	-4 327 804
Tier 2 own funds	15 646 600	9 387 960
Subordinated fixed-term liabilities	15 646 600	9 387 960
Total net own funds	53 246 837	49 609 806

Note 11 Fee income

	2010	2009
Pension fund management (note 14)	19 969 011	11 761 671
Investment fund management (note 14)	1 702 693	1 513 030
Fund issue and redemption fees	744 309	1 409 329
Total	22 416 013	14 684 030

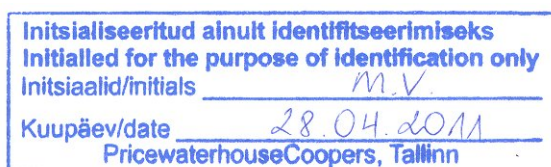
In the financial year and in 2009, the Company's services were rendered only in Estonia.

Note 12 Operating expenses

	2010	2009
Marketing expenses	29 299 394	12 906 097
Advertising expenses	1 581 550	1 250 929
Other purchased services	450 424	1 671 391
Office expenses	1 031 017	1 028 723
Depository fees	1 713 114	1 020 807
Registration fees	1 147 745	779 619
Supervision and guarantee fees	511 801	504 662
Legal consultations and audit	484 479	399 340
Communication costs	474 017	303 292
Travel and training costs	411 197	112 452
Transport expenses	303 033	102 520
Bank services, management and transaction fees	46 635	30 010
IT expenses	210 029	77 774
Total operating expenses	37 664 435	20 187 616

A significant increase in marketing expenses in 2010 is related to more active sales activities targeted at attracting new customers to the funds managed by LHV Varahaldus.

In the reporting period, the wages and salaries of employees totalled EEK 3 669 397 (2009: EEK 3 154 192) and the average number of employees was 12 (2009: 8). The amount of management remuneration is disclosed in Note 14.



Note 13 Finance and operating lease

The Company leases passenger cars and office space under the operating lease terms and a passenger car under the finance lease terms. In the reporting period, the rent for the office space in the total amount of 711 634 kroons (2009: 896 932 kroons) and rent for passenger cars in the total amount of 224 926 kroons (2009: 59 596 kroons) were recognised under other operating expenses in the income statement. Interest expenses in the amount of 18 130 kroons (2009: 20 675 kroons) arising from payment of financial lease installments are recognised under interest expenses in the income statement. Principal payments of the finance lease totalled 100 718 kroons (2009: 88 910 kroons) and they are recognised as a deduction of financial lease liabilities. The finance lease agreement is entered into with an expiry date of 15.03.2013, interest rate 5,53% and the underlying currency of the contract is euro.

All lease agreements are cancellable upon the consent of both parties. The minimum amount of unilaterally cancellable agreements in the subsequent periods is EEK 1 123 101 (2009: EEK 1 156 417), the current portion of which is EEK 325 192 (2009: EEK 275 156) and the non-current portion is EEK 797 909 (2009: EEK 881 261).

As at 31.12.2010, the carrying amount of the passenger car leased under the finance lease terms was EEK 224 611 (31.12.2009: EEK 325 328).

Note 14 Related party transactions

For the purpose of preparation of the annual report of AS LHV Varahaldus, the related parties include:

- owners (parent company and owners of the parent company);
- fellow subsidiaries and associates;
- members of the Management Board, manager of the internal audit department and the entities under their control (together referred to as management);
- members of the Supervisory Board
- close relatives of the persons mentioned above and the companies related to them;
- funds managed by LHV Varahaldus

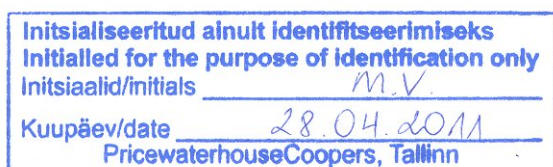
As at 31.12.2010, the owners of AS LHV Varahaldus were AS LHV Group (ownership interest: 83,72%) and Compensa Life Vienna Insurance Group SE (ownership interest: 16,28%).

AS LHV Varahaldus conducted transactions with managed funds in the following amounts:

Management fees	Receivable as at		Receivable as at	
	Revenues 2010	31.12.2010	Revenues 2009	31.12.2009
Pension funds (note 11)	19 969 011	1 863 191	11 761 671	1 155 345
Investment funds (note 11)	1 702 693	239 157	1 513 030	150 820
Total	21 671 704	2 102 348	13 274 701	1 306 165

As at 31.12.2010, the account at AS LHV Pank (LHV) included demand deposits in the total amount of 533 070 kroons (31.12.2009: 78 260 kroons), see also Note 2.

In 2009, the Company granted a loan to AS LHV Pank (LHV; another subsidiary of the parent) in the amount of 6 500 000 kroons. This represented an alternative to a term deposit until LHV Pank received a banking license. The loans were granted with the interest rate of 7% and were paid off on due date in 2009. Interest income on the loans granted totalled 384 495 kroons in the income statement for 2009. No loans were granted in 2010.



At the end of the first quarter of 2010, LHV Varahaldus received a short-term liquidity loan from LHV in the amount of 300 000 kroons, with the interest rate of 10% and paid interest expenses in the amount of 1 833 kroons.

In 2010, the services from LHV for rent, marketing and administration were purchased for 2 108 681 kroons (2009: 1 861 483 kroons). The expenses have been accounted as part of operating expenses in the income statement. As at 31.12.2010 the liability to LHV is 94 855 kroons (31.12.2009: 197 006 kroons).

Subordinated liability to the parent AS LHV Group is recognised in the amount of 15 646 600 kroons (31.12.2009: 9 387 960 kroons) in the balance sheet, see Note 9. As at 31.12.2010, unpaid accrued interest on these liabilities totalled 452 334 kroons (31.12.2009: 548 359 kroons).

The Company has entered into contracts with the members of the Management Board, in which no termination benefits have been stipulated. In matters not regulated by the contract, the parties abide by the procedure established in legislation of the Republic of Estonia.

During the reporting period, salaries were recorded to the members of the Management Board in the amount of 1 000 045 kroons (2009: 474 200 kroons). No remuneration was paid to members of the Supervisory Board. The members of the Supervisory Board covered by employment contracts were paid remuneration of 312 130 kroons (2009: 312 000 kroons). As at 31.12.2010, liabilities to members of the Management Board amount to 430 594 kroons (31.12.2009: 32 072 kroons). As at 31.12.2010, liabilities to members of the Supervisory Board amount to 97 805 kroons (31.12.2009: 19 547 kroons).

No impairment losses were recognised for receivables from related parties in 2010 and in 2009.

Note 15 Contingent liabilities

Tax authorities have the right to review to the Company's tax records for up to 6 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The Company's management estimates that there are not any circumstances which may lead tax authorities to impose additional taxes on the Company.

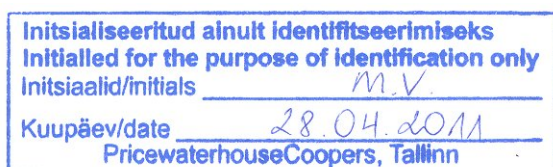
Note 16 Events after the balance sheet date

After the end of the financial year, no significant changes have occurred at AS LHV Varahaldus which would have an effect on the Company's assets and liabilities at the balance sheet date 31.12.2010.

In February 2011, the parent AS LHV Group acquired the ownership interest of Varahaldus from a minority shareholder and thus, it became a 100% shareholder. Also in February, subordinated bonds were redeemed to AS LHV Group in the total amount of EUR 800 000 and new bonds were issued to unrelated parties in the total amount of EUR 1 000 000.

In March 2011, the share capital of AS LHV Varahaldus was increased by means of additional monetary contributions in the total amount of EUR 217 500. The shares were subscribed for with the share premium of EUR 1,45 and the share capital at nominal value increased by EUR 150 000. The amount of new share capital is EUR 4 850 000.

On 1 January 2011, the Republic of Estonia joined the Euro area and adopted the Euro as its national currency, replacing the Estonian kroon. Consequently, starting from 2011, the Company's functional currency is Euro and the statutory financial statements of 2011 and later periods will be presented in Euros. Comparative figures will be recalculated to euros using the conversion rate of 15,6466 EEK/EUR. The exchange rate has been the same during previous periods.



Signatures of the Management Board to the 2010 Annual Report

The Management Board has prepared the management report and the financial statements of AS LHV Varahaldus for the financial year ended on 31 December 2010. The financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Company.

28.04.2011

Members of the Management Board:

Mihkel Oja / signed /

Kerli Lõhmus / signed /



INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS LHV Varahaldus

We have audited the accompanying financial statements of AS LHV Varahaldus (the Company), which comprise the balance sheet as of 31 December 2010 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation, and true and fair presentation of these financial statements in accordance with accounting principles generally accepted in Estonia, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation, and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia.

AS PricewaterhouseCoopers

/signed/

Tiit Raimla
Auditor's Certificate No.287

/signed/

Erki Mägi
Auditor's Certificate No.523

28 April 2011

** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Proposal for covering net loss for financial year

The Management Board of AS LHV Varahaldus proposes to the General Meeting of Shareholders to add the loss for 2010 in the amount of 17 901 188 kroons to the accumulated losses from previous years.

Signatures of the Supervisory Board to the Annual Report

The Supervisory Board has reviewed the annual report, which consists of management report and financial statements, independent auditor's report and the proposal of allocation of net loss for financial year and approved it for presentation at the General Meeting of Shareholders.

29.04.2011

Chairman of the Supervisory Board:

Andres Viisemann / signed /

Members of the Supervisory Board:

Rain Lõhmus / signed /

Erki Kilu / signed /

The revenue of AS LHV Varahaldus according to EMTA classificator

EMTAK	Field of activity	2010	2009
66301	Fund management	22 416 013	14 684 030
	Total	22 416 013	14 684 030